

**TENNESSEE GENERAL ASSEMBLY**  
**FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 780 - HB 1415**

February 17, 2023

**SUMMARY OF BILL:** Exempts the sales and use tax imposed on motor vehicles registered in the state of Tennessee, if the vehicle is sold to a member of the Tennessee air or army national guard. Applies only to the first \$15,000 of the purchase. Requires that a member of the air or national guard may only use the exemption once in any five-year period. Requires an air or army national guard member who purchases a vehicle to confirm membership in the Tennessee air or army national guard and good standing with their unit to qualify for the sales tax exemption.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – \$2,347,000/FY23-24 and Subsequent Years**

**Decrease Local Revenue – \$143,800/FY23-24 and Subsequent Years**

Assumptions:

- According to the Department of Military, there were 9,515 members of the Tennessee Army National Guard and 3,397 members of the Tennessee Air National Guard.
- According to the Department of Military, 1,380 of those in the Tennessee Army or Air National Guard are in the Active Guard and Reserve Program and are currently exempt from paying the sales and use tax on motor vehicles pursuant to Tenn. Code Ann. § 67-6-303(a)(2); therefore, the total number of individuals who would qualify for the proposed sales and use tax exemption is 11,532 (9,515 + 3,397 – 1,380).
- For the purposes of this analysis, these numbers are expected to remain constant in perpetuity.
- It is assumed that 20 percent, or 2,306 (11,532 x 20%), of members will purchase a used or new car each fiscal year.
- According to Kelly Blue Book, the average used car in the United State sold for \$27,564 in October 2022 while the average new car sold for \$48,281; for the purposes of this analysis, it is assumed that the full \$15,000 exemption will be utilized on all purchases.
- Total annual sales of cars by Tennessee Army and Air National Guard members that are eligible for a sales and use tax exemption are estimated to be \$34,590,000 (\$15,000 x 2,306) in FY23-24 and subsequent years.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.

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- The Tennessee single article tax on amounts over \$1,600, but under \$3,200, is effectively \$44  $[(\$3,200 - \$1,600) \times 2.75\% \text{ single article tax}]$ .
- The local tax rate is only applicable to the first \$1,600 of the sale, making the effective local option sales tax cap \$40  $(\$1,600 \times 2.5\%)$ .
- The recurring decrease in state revenue is estimated to be \$2,435,186  $[(\$34,590,000 \times 7.0\%) - (\$34,590,000 \times 7.0\% \times 3.617\%) + (2,306 \times \$44)]$  in FY23-24 and subsequent years.
- The recurring decrease in local revenues is estimated to be \$179,818  $[(\$34,590,000 \times 7.0\% \times 3.617\%) + (2,306 \times \$40)]$  in FY23-24 and subsequent years.
- Fifty percent of tax savings, or \$1,307,502  $[(\$2,435,186 + \$179,818) / 2]$  will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state revenue is estimated to be \$88,215  $[(\$1,307,502 \times 7.0\%) - (\$1,307,502 \times 7.0\% \times 3.617\%)]$ .
- The recurring increase in local revenue is estimated to be \$35,998  $[(\$1,307,502 \times 2.5\%) + (\$1,307,502 \times 7.0\% \times 3.617\%)]$ .
- The net recurring decrease in state revenue is estimated to be \$2,346,971  $(\$2,435,186 - \$88,215)$  in FY23-24 and subsequent years.
- The net recurring decrease in local revenue is estimated to be \$143,820  $(\$179,818 - \$35,998)$  in FY23-24 and subsequent years.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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